



Frontken Corporation Berhad

Initiates First Ever Dividend

TP: RM 0.20 (+25.0%)

Last Traded: RM 0.16

BUY

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Review

- Frontken recorded its 1H FY10 results, which came within TA's expectations. YTD net profit of RM7.4mn accounted for about 45% of our full year estimates.
- Stripping out the one-time goodwill impairment charge of RM0.9mn, core net profit for 1H FY10 surged almost 3-fold to RM8.3mn on the back of a 5.8% increase in revenue. The higher revenue recorded was mainly due to better demand for the group's services in Singapore and the Philippines.
- The improvement in bottomline was mainly due to higher margin arising from lower subcontracting costs and reduced losses from associates.
- Singapore and Malaysia contributed to some 59% and 32% of the group's total revenue in 1H FY10. Singapore was also the key contributor amounting to RM8.3mn in operating profit. Malaysia, Philippines and China businesses registered operating profits of RM2.3mn, RM1.0mn and RM0.5mn, respectively. Other operations cumulatively incurred operating losses of up to RM1.2mn.
- Frontken has also announced its first-ever dividend of 0.1sen for FY10. This translates to a dividend yield of 0.6%.

Impact

- No change in our earnings estimates as we expect the group's business to pick up during the second half of the year.

Outlook

- According to management, Frontken Philippines is emerging as a significant contributor to the group's revenue and bottom line. This is mainly due to its success in Offshore, Water Industry, and the latest, the Geothermal Industry. Frontken is able to fully undertake and apply its completely integrated surface metamorphosis and engineering solutions to main and auxiliary equipments in the entire geothermal plants.
- Management is optimistic about the outlook with encouraging rebound in demand from power generation, semiconductor and oil & gas sectors.
- According to European Photovoltaic Industry Association (EPIA), the World Annual Photovoltaic (PV) market could reach up to 30 GW in 2014. Frontken aims to develop opportunities in the Solar/Photovoltaic sector into a new revenue stream in the medium to long term. Management did not rule out the possibility that this sector will become a significant contributor to the group's revenue in 2-3 years time.

Share Information

Bloomberg Code	FRCB MK
Stock Code	128
Listing	Main Market
Share Cap (mn)	1011.4
Market Cap (RMmn)	161.8
Par Value	0.1
52-wk Hi/Lo (RM)	0.247/0.115
12-mth Avg Daily Vol ('000 shrs)	1505
Estimated Free Float (%)	70.0
Beta	0.64

Major Shareholders (%)

Hua Choon Wong	- 19.9
Lembaga Tabung Haji	- 6.27

Forecast Revision

	FY10	FY11
Forecast Revision (%)	-	-
Net profit (RMmn)	18.7	24.9
Consensus	nm	nm
TA's / Consensus (%)	nm	nm
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY10	FY11
Net debt/equity (%)	12.3	(9.0)
CFPS (sen)	0.8	2.0
P/CFPS (x)	20.7	7.9
ROE (%)	10.1	11.4
ROA (%)	6.9	8.3
NTA/Share (RM)	0.3	0.3
Price/ NTA (x)	0.6	0.5
5-year EPS CAGR	18.8	18.8

Scorecard

	% of FY	
vs TA	45	Within
vs Consensus	NA	NA

Share Performance (%)

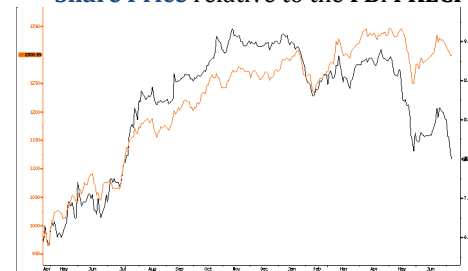
Price Change	FRONT	FBM KLCI
1 mth	14.3	4.5
3 mth	28.0	10.4
6 mth	6.7	10.6
12 mth	(23.1)	19.7

- We expect an encouraging growth in the PV industry, as key manufacturers in the world such as First Solar GmbH, Q-Cells AG and SunPower Corp have invested and set up presence in Malaysia.

Valuation

- Maintain BUY on Frontken with a target price of RM0.20. Potential re-rating catalysts include: (1) faster-than-expected economic recovery and improvement in end customer spending, (2) favourable industry demand and trends, and (3) strong pick-up in its parts manufacturing segment.

Share Price relative to the FBM KLCI



Source: Bloomberg

Earnings Summary (RMmn)

YE 31 Dec	FY07	FY08	FY09	FY10F	FY11F
Revenue	105.4	130.5	137.2	192.1	235.9
Pretax profit	6.9	19.4	8.1	34.8	43.6
Taxation	(2.5)	(0.5)	(0.6)	(8.7)	(10.9)
Net profit	4.0	18.8	8.1	18.7	24.9
Core Net Profit	9.7	11.2	8.1	18.7	24.9
Core EPS (sen)	1.0	1.1	0.8	1.8	2.5
EPS growth (%)	(7.8)	15.4	(27.5)	130.3	33.3
PER (x)	16.7	14.5	19.9	8.7	6.5
GDPS (sen)	0.0	0.0	0.0	0.1	0.1
Div Yield (%)	na	na	na	0.6	0.6

2Q10 Results Analysis (RMmn)

FYE 31 Dec	1Q10	2Q10	QoQ%	1H09	1H10	YOY
Turnover	33.9	37.4	10.2	67.4	71.3	5.8
EBITDA	8.1	9.5	17.3	10.7	17.6	64.3
Depreciation & Amortisation	(3.6)	(3.6)	0.2	(6.7)	(7.1)	(6.6)
Net Int Inc/ (exp)	(0.9)	(0.9)	2.2	(1.9)	(1.7)	6.9
El	0.0	0.9	nm	0.0	0.9	nm
Associates	(0.0)	0.1	nm	(0.7)	0.0	nm
Pretax	4.1	4.8	18.0	2.7	8.8	>100
Taxation	(0.5)	(0.9)	(83.2)	(0.3)	(1.5)	>-100
MI	(0.0)	0.1	nm	(0.3)	0.0	nm
Net Profit	3.6	3.8	6.2	2.8	7.4	>100
Net Profit adj	3.6	4.7	32.3	2.8	8.3	>100
EPS (sen)	0.4	0.5	32.3	0.3	0.8	>100
GDPS (sen)	0.0	0.0		0.0	0.0	
EBITDA Margin	23.9	25.5		15.9	24.7	
Pretax Margin	12.0	12.8		4.1	12.4	
Net Margin	10.6	12.7		4.1	11.7	
Tax Rate	(12.6)	(19.6)		(11.5)	(16.4)	

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for TA SECURITIES HOLDINGS BERHAD(14948-M)

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